

## Message Text

LIMITED OFFICIAL USE

PAGE 01 SEOUL 06384 272322Z

64

ACTION EB-11

INFO OCT-01 EA-11 ISO-00 NEA-14 FEA-02 AEC-11 AID-20

CEA-02 CIAE-00 CIEP-03 COME-00 DODE-00 FPC-01 H-03

INR-11 INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01

SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00 FRB-03 DRC-01

/159 W

----- 049033

R 251027Z SEP 74

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 6123

LIMITED OFFICIAL USE SEOUL 6384

C O R R E C T E D C O P Y - MRN: 6384 VICE 6123

EO 11652: N/A

TAGS: ENRG, KS

SUBJECT: PROBLEMS OF U.S. PETROLEUM REFINING MARKETING  
INTERESTS IN KOREA REACHING CRITICAL LEVEL

SUMMARY: U.S. JOINT PETROLEUM REFINING/MARKETING FIRMS  
IN KOREA FACE INCREASED OPERATIONAL LOSSES AS IMPORTED  
CRUDE COSTS CONTINUE TO RISE, WHILE PRINCIPAL DOMESTIC  
PRODUCTS PRICES REMAIN FIXED BY THE ROKG AT BELOW COST LEVELS.  
END SUMMARY

1. IN GENERAL, U.S. JOINT PETROLEUM REFINING/  
MARKETING FIRMS IN KOREA--KOCO (GULF), HONAM OIL  
(CALTEX), AND KYUNG IN ENERGY (UNION)--ARE SUFFERING  
SUBSTANTIAL OPERATING LOSSES LARGELY BECAUSE GOVERN-  
MENT-SET DOMESTIC PRICES FOR PETROLEUM PRODUCTS DO  
NOT COVER HIGH AND RISING CRUDE IMPORT COSTS--  
CURRENTLY AVERAGING OVER \$10 PER BARREL LAID DOWN  
COST. THIS PRINCIPALLY INVOLVES BUNKER C, THE BIG  
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SEOUL 06384 272322Z

VOLUME PRODUCT (OVER ONE-HALF) FOR ALL THE COMPANIES,

WHICH AT A CURRENT PRICE OF \$9.37 PER BARREL (EQUIVALENT) RESULTS IN A LOSS OF AT LEAST A DOLLAR A BARREL. NAPHTHA IS ALSO A MONEY LOSER ON DOMESTIC SALES, ALTHOUGH PROFITABLE FOR THOSE COMPANIES ABLE TO EXPORT AND BENEFIT FROM THE HIGH INTERNATIONAL PRICE.

2. LOSSES CAN BE EXPECTED TO INCREASE AS CRUDE PRICES CONTINUE TO MOVE UPWARD. MOREOVER, PRICES FOR ALL CRUDE SHIPPED TO KOREA IN 1974 HAVE BEEN PROVISIONAL, THUS, CURRENT REQUESTS FOR RETROACTIVE INCREASES IN THE SUPPLY PRICE FOR CRUDE WOULD BOOST LOSSES ALREADY INCURRED IN 1974. RECENT REQUESTS TO ROKG FOR INCREASED PRODUCT PRICES HAVE SO FAR BEEN RESISTED. HOWEVER, AS A RESULT OF THESE DEEPENING PROBLEMS THE PETROLEUM COMPANIES ARE INTENSIFYING PRESSURE ON THE ROKG FOR PRICE CONCESSIONS. MEANWHILE, AT LEAST ONE U.S. FIRM, GULF, HAS SUGGESTED THAT THE ROKG ASSUME ITS INVESTMENT.

3. ALTHOUGH MOST OF THE ABOVE PROBLEMS ARE COMMON TO THE KOREAN PETROLEUM COMPANIES, SOME ARE HIT WORSE THAN OTHERS. KOCO (GULF), IN ADDITION TO ITS LARGE LOSSES ON BUNKER C FUEL, IS OBLIGATED TO SELL ITS NAPHTHA OUTPUT DOMESTICALLY AT CONSIDERABLE LOSS. THE BULK OF KOREA GULF'S CRUDE IMPORTS INTO KOREA ARE NOW BEING PURCHASED BY GULF FROM MIDDLE EAST SOURCES (CALTEX) AT INTERNATIONAL PRICES SINCE GULF NO LONGER HAS EQUITY CRUDE AVAILABLE TO KOREA FROM ITS OWN MIDDLE EAST PRODUCTION. KOCO HAS NOW REQUESTED AN INCREASE IN THE CRUDE SUPPLY PRICE FOLLOWING AN EARLIER REQUEST FOR INCREASED PRODUCT PRICES. MOREOVER, COMPANY SOURCES INDICATE THAT THE CURRENT REQUEST DOES NOT REFLECT THE LATEST ANNOUNCEMENT BY OPEC REGARDING HIGHER TAX AND ROYALTY PAYMENTS, HENCE PROBABLY STILL HIGHER CRUDE COSTS.

4. HONAM (CALTEX), WHILE SUFFERING SIMILAR LOSSES ON ITS BUNKER C PRODUCTION, IS IN A BETTER POSITION THAN KOCO (GULF) SINCE IT CAN EXPORT NAPHTHA AT A SUBSTANTIAL PROFIT, THUS PARTIALLY OFFSETTING DOMESTIC MARKETING LOSSES. ALSO, CALTEX CAN MEET HONAM'S CRUDE REQUIREMENTS FROM ITS OWN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SEOUL 06384 272322Z

MIDEAST CRUDE ON WHICH CALTEX PRESUMABLY MAKES A PROFIT. HONAM'S OVERALL POSITION IS LIKELY TO WORSEN, HOWEVER, SINCE THE VALUE OF ITS IMPORTED CRUDE CONTINUES TO RISE, REGARDLESS OF WHO SUPPLIES IT. THUS HONAM IS ALSO EXPECTED TO PRESS FOR A HIGHER CRUDE SUPPLY PRICE.

5. KYUNG IN ENERGY (UNION) IS PARTICULARLY HARD HIT BY DOMESTIC MARKETING LOSSES SINCE BUNKER C FORMS

AN EVEN LARGER PROPORTION OF ITS OUTPUT THAN IN THE CASE OF THE OTHER COMPANIES DUE TO A REQUIREMENT TO FUEL ITS ELECTRIC POWER PLANT. AS WITH GULF, UNION MUST PURCHASE THE BULK OF KYUNG IN'S CRUDE REQUIREMENTS AT INTERNATIONAL PRICES. THUS, KYUNG IN'S OPERATING LOSSES CAN BE EXPECTED TO INCREASE EVEN MORE THAN THE OTHER COMPANIES, AS CRUDE COSTS CONTINUE TO RISE. EFFORTS TO BROADEN ITS MARKET FOR GASOLINE AND OTHER PRODUCTS CONTINUE BUT WILL BE SLOW TO ACHIEVE THE NEEDED BALANCE.

6. DURING A CALL ON AMBASSADOR SNEIDER, GULF CHAIRMAN DORSEY DISCUSSED GULF'S PROBLEMS IN DETAIL. HE RECALLED THAT AT THE TIME OF GULF'S INITIAL INVESTMENT IN THE KOREA OIL CORPORATION (KOCO), GULF WAS LOOKING FOR OUTLETS FOR ITS EQUITY CRUDE. THE PROJECT HAD BEEN PROFITABLE, BUT NOW THAT GULF NO LONGER HAD A SUPPLY OF EQUITY CRUDE FOR KOCO THE PROJECT HAS LOST MUCH OF ITS ATTRACTIVENESS. HE CONFIRMED THE SITUATION DESCRIBED IN PARAGRAPH 3 ABOVE AND ADDED THAT KOCO WAS NOW INDEBTED TO GULF FOR \$32 MILLION WHICH REPRESENTS THE DIFFERENCE BETWEEN THE PROVISIONAL PRICE PAID FOR CRUDE DURING THE PAST EIGHT MONTHS AND THE CONFIRMED PRICE. HE REPORTED THAT HE HAD SUGGESTED TO THE PRIME MINISTER THAT THE ROKG ESTABLISH A NATIONAL PETROLEUM COMPANY WHICH COULD ASSUME GULF'S INTEREST IN KOCO. IN THESE CIRCUMSTANCES GULF WOULD BE PREPARED TO PROVIDE MANAGEMENT AND OTHER SERVICES TO KOCO UNDER A CONTRACTUAL ARRANGEMENT AT LEAST FOR AN INTERIM PERIOD. THE PRIME MINISTER REJECTED THIS PROPOSAL AS PREMATURE NOTING THAT KOREANS DID NOT YET HAVE THE SKILLS EITHER TO MANAGE KOCO OR TO DEAL EFFECTIVELY WITH THE OIL PRODUCING NATIONS. THE PRIME MINISTER DID ASSURE DORSEY HOWEVER THAT THE ROKG WOULD ARRANGE FOR KOCO TO SETTLE ITS \$32 MILLION INDEBTEDNESS TO GULF PROMPTLY AND HE PROMISED TO INITIATE ACTION WITHIN THE GOVERNMENT TO RELIEVE GULF OF ITS PRESENT PRICE SQUEEZE.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 SEOUL 06384 272322Z

IN A SEPARATE CONVERSATION, VOSS, CHAIRMAN OF CALTEX CORPORATION, TOLD AMBASSADOR SNEIDER THAT CALTEX WAS NOW LOSING \$1.00 PER BARREL ON CRUDE SUPPLIED TO KOREA AND THAT CALTEX WOULD BEGIN NEGOTIATIONS WITH THE ROKG FOR RETROACTIVE PAYMENTS TO MAKE UP FOR THIS LOSS AND FOR AN INCREASE IN PRODUCT PRICES.

ERICSON

LIMITED OFFICIAL USE

NNN



## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** MARKETS, PROFITS, PETROLEUM REFINING, BUSINESS FIRMS, PRICES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 25 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** izenbei0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974SEOUL06384  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D740273-0910  
**From:** SEOUL  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740915/aaaaamfr.tel  
**Line Count:** 161  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EB  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** izenbei0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 07 AUG 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <07-Aug-2002 by kelleyw0>; APPROVED <06 MAR 2003 by izenbei0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PROBLEMS OF U.S. PETROLEUM REFINING MARKETING INTERESTS IN KOREA REACHING CRITICAL LEVEL  
**TAGS:** ENRG, KS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005